



Memorandum

TO: RULES COMMITTEE

FROM: Betsy Shotwell

SUBJECT: SEE BELOW

DATE: March 15, 2004

Approved

Date

3/16/04

SUBJECT: LOCAL TAXPAYERS AND PUBLIC SAFETY PROTECTION ACT

RECOMMENDATION

Accept the staff recommendation to support the Local Taxpayers and Public Safety Protection Act initiative, sponsored by the League of California Cities (LOCC), the California State Association of Counties (CSAC), and the California Special District Association (CSDA), and supported by the California Redevelopment Association, planned for the November 2004 State ballot.

BACKGROUND

Since 1991 more than \$30 billion of local property tax revenues have been taken by the State from cities, counties and special districts to help balance State budgets. It is estimated that an additional \$450 million has been taken from those cities with redevelopment agencies. The Educational Revenue Augmentation Fund (ERAF) shift cost cities \$800 million in FY 2003-04 alone and \$6.9 billion over the last 12 years. For San Jose, the City's cumulative loss is estimated at approximately \$221,410,552 in property tax shifts to the State's ERAF. In FY 2003-04 the City has estimated an ERAF takeaway of \$28,305,924. Since ERAF shifts continue to grow with the growth in assessed values and the State's proposed FY 2004-05 budget recommends an additional shift of \$6.8 million in local property tax revenues to the State which would result in a San Jose ERAF shift estimated at \$37.2 million for FY 2004-05.

Since FY 1992-93, the San Jose Redevelopment Agency ERAF shift will total \$ 33.8 million through FY 2003-04. The proposed State FY 2004-05 budget would result in a San Jose Redevelopment ERAF shift of \$10.1 million, and a cumulative total of \$ 43.9 million. If the proposed ERAF shift is made ongoing, a minimum of \$10.1 million each year thereafter, it could result in a total shift of \$ 74.2 million by the end of the Agency's current Five-Year FY 2003-04 through FY 2007-08 Capitol Improvement Program.

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For the FY 2004-05, the State budget proposes to make the RDA ERAF shift ongoing which would increase the amount taken from RDA's each year as their tax increment grows. An ongoing and escalating redevelopment ERAF payment would curtail or eliminate the ability to borrow money to finance infrastructure, affordable housing and other critical projects.

Redevelopment partnerships leverage public and private investments to increase property values in areas where private investors are less likely to invest without the public partner. It is the increase in property values resulting from redevelopment activities that allow redevelopment agencies to pay back bond obligations. If the State takes the resulting increase in property tax values from redevelopment agencies, projects critical to fueling economic growth and recovery including: job creation and retention; building infrastructure and affordable housing; and continuation of the strong neighborhoods initiatives. Without the ability of redevelopment to continue its' economic development initiatives property values and assessed growth will become stagnate or decline.

In recent years the State has also shifted the costs for State-mandated programs and delayed the constitutionally required reimbursements for State mandated programs and services to local governments. According to the LOCC, "in the last two fiscal years, the State has "deferred" over \$1 billion in constitutionally required reimbursements to local governments for mandated services and programs."

ANALYSIS

The LOCC has joined with CSAC and CSDA to sponsor and support a Statewide initiative for the November 2004 General Election ballot, entitled the Local Taxpayers and Public Safety Protection Act which is attached. If the initiative qualifies for the November 2004 General Election ballot and is passed by the voters, the Act would amend the State Constitution to:

Require approval by a majority of the electorate before a proposed State law may take effect that reduces, suspends or delays the receipt of Local Government revenues from property taxes and vehicle license fees (VLF). Local Governments include cities, counties and special districts and redevelopment agencies. Flexibility is provided to reduce the VLF and replace it with substitute revenues (i.e., "backfill" without voter approval).

Require approval by a majority of the electorate before a proposed State law may take effect that restricts the authority to impose, or changes the distribution of the local sales tax.

- Clarify the State's duty to reimburse in a timely way for a new mandated program or higher level of service, protecting Local Governments from hidden cost shifts.

This measure is a culmination of months of work initiated by LOCC and its' public agency partners to create a solution that will not only provide stability and security for local government funding, but will also allow the voters of California the ultimate decision-making power when

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the State seeks to take away funds dedicated to local governments. Even with the recent passage of the \$15 billion State bond measure, Proposition 57, the State's projected deficit for FY 2004-05 is estimated to be \$15 to \$17 billion – while also including proposed State and local spending cuts of approximately \$8 billion. It is anticipated that this City's revenues will continue to be at risk during these, and future, difficult budget years, with the State's history of taking local government revenues unless Constitutional protections are put in place.

City Recommended Position: Support the Local Taxpayers and Public Safety Protection Act planned for the November 2004 Statewide ballot.

Status: The LOCC and the ballot measure's coalition are currently working to gather by mid-April, the necessary 598,105 valid signatures needed to qualify the measure for the November 2004 State ballot.

PUBLIC OUTREACH

Not Applicable

COORDINATION

This memo was coordinated with Budget, the Redevelopment Agency, the City Attorney's Office and our City's Legislative Lobbyist in Sacramento.



BETSY SHOTWELL

Director, Intergovernmental Relations

Attachment: The Local Taxpayers and Public Safety Protection Act

THE LOCAL TAXPAYERS AND PUBLIC SAFETY PROTECTION ACT

SECTION ONE. Short Title.

These amendments to the California Constitution shall be known and may be cited as the LOCAL TAXPAYERS AND PUBLIC SAFETY PROTECTION ACT.

SECTION TWO. Findings and Purposes

(a) The People of the State of California find that restoring local control over local tax dollars is vital to insure that local tax dollars are used to provide critical local services including, but not limited to, police, fire, emergency and trauma care, public health, libraries, criminal justice, and road and street maintenance. Reliable funding for these services is essential for the security, well-being and quality of life of all Californians.

(b) For many years, the Legislature has taken away local tax dollars used by local governments so that the State could control those local tax dollars. In fact, the Legislature has been taking away billions of local tax dollars each year, forcing local governments to either raise local fees or taxes to maintain services, or cut back on critically needed local services.

(c) The Legislature's diversion of local tax dollars from local governments harms local governments' ability to provide such specific services as police, fire, emergency and trauma care, public health, libraries, criminal justice, and road and street maintenance.

(d) In recognition of the harm caused by diversion of local tax dollars and the importance placed on voter control of major decisions concerning government finance, and consistent with existing provisions of the California Constitution that give the people the right to vote on fiscal changes, the People of the State of California want the right to vote upon actions by the State government that take local tax dollars from local governments.

(e) The Local Taxpayers and Public Safety Protection Act is designed to insure that the People of the State of California shall have the right to approve or reject the actions of state government to take away local revenues that fund vitally needed local services.

(f) The Local Taxpayers and Public Safety Protection Act strengthens the requirement that if the State mandates local governments to implement new or expanded programs, then the State shall reimburse local governments for the cost of those programs.

(g) The Local Taxpayers and Public Safety Protection Act does not amend or modify the School Funding Initiative, Proposition 98 (Article XVI, section 8 of the California Constitution).

(h) Therefore, the People declare that the purposes of this Act are to:

- (1) require voter approval before the Legislature removes local tax dollars from the control of Local Government, as described in this measure;
- (2) insure that local tax dollars are dedicated to local governments to fund local public services;
- (3) insure that the Legislature reimburses local governments when the State mandates local governments to assume more financial responsibility for new or existing programs; and
- (4) prohibit the Legislature from deferring or delaying annual reimbursement to local governments for state-mandated programs.

SECTION THREE. Article XIII E is hereby added to the California Constitution to read as follows:

ARTICLE XIII E Local Taxpayers and Public Safety Protection Act

Section 1. State-wide Voter Approval Required.

(a) Approval by a majority vote of the electorate, as provided for in this section, shall be required before any act of the Legislature takes effect that removes the following funding sources, or portions thereof, from the control of any Local Government as follows:

- (1) Reduces, or suspends or delays the receipt of, any Local Government's proportionate share of the Local Property Tax when the Legislature exercises its power to apportion the Local Property Tax; or requires any Local Government to remit Local Property Taxes to the State, a state-created fund, or, without the consent of the affected Local Governments, to another Local Government;
- (2) Reduces, or delays or suspends the receipt of, the Local Government Base Year Fund to any Local Government, without appropriating funds to offset the reduction, delay or suspension in an equal amount;
- (3) Restricts the authority to impose, or changes the method of distributing, the Local Sales Tax;
- (4) Reduces, or suspends or delays the receipt of, the 2003 Local Government Payment Deferral; or
- (5) Fails to reinstate the suspended Bradley-Burns Uniform Sales Tax Rate in accordance with Section 97.68 of the Revenue and Taxation Code added by Chapter 162 of 2003 Statutes; or reduces any Local Government's allocation of the Property Tax required by Section 97.68 while the Sales Tax Rate is suspended.

(b) Prior to its submission to the electorate, an act subject to voter approval under this section must be approved by the same vote of the Legislature as is required to enact a budget bill and shall not take effect until approved by a majority of those voting on the measure at the next statewide election in accordance with subdivision (c).

(c) When an election is required by this section, the Secretary of State shall present the following question to the electorate: "Shall that action taken by the Legislature in [Chapter___ of the Statutes of ___], which affects local revenues, be approved?"

Section 2. Definitions

(a) "Local Government" means any city, county, city and county, or special district.

(b) "Local Government Base Year Fund" means the amount of revenue appropriated in the 2002-2003 fiscal year in accordance with Chapters 1 through 5, commencing with section 10701 of Part 5 of Division 2 of the Revenue and Taxation Code, adjusted annually based upon the change in assessed valuation of vehicles that are subject to those provisions of law. In the event that the fees imposed by those provisions of law are repealed, then the Fund shall be adjusted annually on July 1 by an amount not less than the percentage change in per capita personal income and the change in population, as calculated pursuant to Article XIIIB.

(c) "2003 Local Government Payment Deferral" means the amount of revenues required to be transferred to Local Government from the General Fund specified in subparagraph D of paragraph 3 of subdivision (a) of section 10754 of the Revenue and Taxation Code in effect on August 11, 2003.

(d) "Local Property Tax" means any Local Government's January 1, 2003 proportionate share of ad valorem taxes on real property and tangible personal property apportioned pursuant to the Legislature's exercise of its power to apportion property taxes as specified in Article XIII A, section 1. "Local Property Tax" also means any Local Government's allocation of the ad valorem tax on real property and tangible personal property pursuant to Article XVI, section 16.

(e) "Local Sales Tax" means any sales and use tax imposed by any city, county, or city and county pursuant to the terms of the Bradley-Burns Uniform Sales and Use Tax (Chapter 1 of Part 1.5 of Division 2 of the Revenue and Taxation Code) in accordance with the law in effect on January 1, 2003.

(f) "Special District" means an agency of the State, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions with limited geographic boundaries, including redevelopment agencies, but not including school districts, community college districts, or county offices of education.

(g) "State" means the State of California.

Section 3. Interim Measures

(a) The operation and effect of any statute, or portion thereof, enacted between November 1, 2003 and the effective date of this Act, that would have required voter approval pursuant to Section 1 if enacted on or after the effective date of this Act (the "Interim Statute"), shall be suspended on that date and shall have no further force and effect until the date the Interim Statute is approved by the voters at the first statewide election following the effective date of this Act in the manner specified in Section 1. If the Interim Statute is not approved by the voters, it shall have no further force and effect.

(b) If the Interim Statute is approved by the voters, it shall nonetheless have no further force and effect during the period of suspension; provided, however, that the statute shall have force and effect during the period of suspension if the Interim Statute or separate act of the Legislature appropriates funds to affected local governments in an amount which is not less than the revenues affected by the Interim Statute.

(c) A statute or other measure that is enacted by the Legislature and approved by the voters between November 1, 2003 and the effective date of this Act is not an Interim Statute within the meaning of this section.

SECTION FOUR. Article XIII B Section Six (6) is hereby amended as follows:

SEC. 6. (a) Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall annually provide a subvention of funds to reimburse such local government for the costs of such program or increased level of service, except that the Legislature may, but need not, provide such subvention of funds for the following mandates:

- ~~(a)~~ (1) Legislative mandates requested by the local agency affected;
- ~~(b)~~ (2) Legislation defining a new crime or changing an existing definition of a crime; or
- ~~(c)~~ (3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

(b) The annual subvention of funds required by this section shall be transmitted to the local government within 180 days of the effective date of the statute or regulation or order by a State officer or agency that mandates a new program or higher level of service, or within 180 days of a final adjudication that a subvention of funds is required pursuant to this section. For purposes of this section, the Legislature or any State agency or officer mandates a new program or higher level of service when it creates a new program, requires services not previously required to be provided, increases the frequency or duration of required services, increases the number of persons eligible for services, or transfers to local government complete or partial financial responsibility for a program for which the State previously had complete or partial financial responsibility.

(c) If during the fiscal year in which a claim for reimbursement is filed for a subvention of funds, the Legislature does not appropriate a subvention of funds that provides full reimbursement as required by subdivision (a), or does not appropriate a subvention of funds that provides full reimbursement as part of the state budget act in the fiscal year immediately following the filing of that claim for reimbursement, then a local government may elect one of the following options:

(1) Continue to perform the mandate. The local government shall receive reimbursement for its costs to perform the mandate through a subsequent appropriation and subvention of funds; or

(2) Suspend performance of the mandate during all or a portion of the fiscal year in which the election permitted by this subdivision is made. The local government may continue to suspend performance of the mandate during all or a portion of subsequent fiscal years until the fiscal year in which the Legislature appropriates the subvention of funds to provide full reimbursement as required by subdivision (a). A local government shall receive reimbursement for its costs for that portion of the fiscal year during which it performed the mandate through a subsequent appropriation and subvention of funds.

The terms of this subdivision do not apply to, and a local government may not make the election provided for in this subdivision, for a mandate that either requires a local government to provide or modify any form of protection, right, benefit or employment status for any local government employee or retiree, or provides or modifies any procedural or substantive right for any local government employee or employee organization, arising from, affecting, or directly relating to future, current, or past local government employment.

(d) For purposes of this section, "mandate" means a statute, or action or order of any state agency, which has been determined by the Legislature, any court, or the Commission on State Mandates or its designated successor, to require reimbursement pursuant to this section.

SECTION FIVE. Construction.

(a) This measure shall be liberally construed to effectuate its purposes, which include providing adequate funds to Local Government for local services including, but not limited to, such services as police, fire, emergency and trauma care, public health, libraries, criminal justice, and road and street maintenance.

(b) This measure shall not be construed either to alter the apportionment of the ad valorem tax on real property pursuant to Section 1 of Article XIII A by any statute in effect prior to January 1, 2003 or to prevent the Legislature from altering that apportionment in compliance with the terms of this measure.

(c) Except as provided in Section 3 of Article XIII E added by Section Three of this Act, the provisions of Section 1 of Article XIII E added by Section Three of this Act apply to all statutes adopted on or after the effective date of this Act.

SECTION SIX. If any part of this measure or its application to any person or circumstance is held invalid by a court of competent jurisdiction, the invalidity shall not affect other provisions or applications that reasonably can be given effect without the invalid provision or application.